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SUBJECT: PROGRESS WITH CUSTOMS AND TRADE REFORM IN EGYPT

SUMMARY

1. This report outlines the major reforms undertaken by the GOE in the customs and trade areas since the appointment of the new Cabinet in July 2004, highlighting USAID's support for the process. It updates and expands on Cairo 00367 dated January 15, 2004 on customs reform.

2. Under the leadership of a dynamic new Minister of Finance and Customs Commissioner, a variety of reforms have been implemented aimed at transforming the Egyptian Customs Authority (ECA) into a trade facilitation agency and away from its traditional roles of controlling trade and manipulating regulations to maximize revenue collection. The main reforms have included: a) simplifying customs procedures to accelerate clearance of goods, b) a new organizational structure that is more efficient and decentralized, c) Model Customs Centers acting as one-stop shops, d) development of an Accounts Management System using post-entry compliance techniques for repeated transactions with large trusted importers, and e) reducing the average level and dispersion of tariff rates to cut down Customs valuation disputes.

3. ECA is also working closely with other inspection agencies, particularly with the General Organization for Export and Import Control (GOEIC), to coordinate the use of improved risk management in order to reduce the excessive number of tests and inspections.

4. Over the past two years the Ministry of Foreign Trade and Industry (MOFTI), under the leadership of the new Minister, has engaged in a systematic effort to reform its trade regime. Reforms have included the revision of the export and import regulations to reduce non-tariff barriers, improved compliance with the WTO Agreements, and international accreditation for some of its laboratories.

5. The World Bank's "Doing Business in 2005" report singled out Egypt for the significance of its customs reforms, emphasizing in particular Egypt's streamlining of customs procedures and trade documents. Moreover, Egypt's non-petroleum trade increased by 30 percent in FY 2004-05 over the previous year.

6. USAID has played a leading role in providing technical assistance to support trade reforms and in coordinating efforts with other donors such as the EU, the IMF, and Euro-Customs. END SUMMARY

1A. CUSTOMS REFORM MEASURES

CORPORATE CULTURE SHIFT

7. Led by the new Commissioner, the ECA has been undergoing a corporate culture shift that emphasizes facilitating trade as opposed to regulating or taxing it. In a USAID sponsored workshop held in July 2005, ECA managers expressed their understanding of the shift of focus towards client satisfaction and away from an adversarial attitude towards the trade community.

8. ECA has made a concerted effort, supported by USAID, to reach out to and learn from its customers. In late 2004 ECA sponsored a symposium with major importers, brokers and shipping lines out of Alexandria to get their views on consistency in valuation, automated capacities at customs, and consistency in the application of customs procedures.

9. In May 2005, ECA opened the dialogue further by organizing a Risk Management Workshop that represented the first meeting to be attended by the trade community, customs, and other control agencies. This led to creation of an Advisory Committee on Trade Facilitation in Alexandria (ACTFA), which has been used by ECA to consult on a continuing basis with core representatives of the trade community about policies and procedures that are being proposed. ACTFA provides the trade community with a forum to advise ECA and GOEIC on their issues, experiences and concerns. Additional Advisory Committees on Trade Facilitation are planned for each region and for key ports,

with ACTFs to be established in Port Said and Ain El Sokhna by the end of November 2005.

¶10. At the 2005 Risk Management workshop, private importers, brokers, and shipping agencies expressed their appreciation for the many steps that were taken by ECA to simplify procedures and reduce release times. They were less satisfied with the performance of the other control agencies.

EGYPTIAN CUSTOMS' REORGANIZATION

¶11. In mid-2005, the Minister of Finance requested support from USAID to design a comprehensive organizational re-alignment for the ECA, including organizational structure, human capital, technology, customs processes and performance measures. A new, flatter, organizational structure was developed and approved by the Minister in September. The structure reduces the reporting levels in the organization, significantly decreases the number of direct reports to senior management, eliminates the high levels of redundancy, and introduces regional customs offices. The transition to the new organization, which is expected to occur over the next two years, involves: executive assessments; reducing staff levels from the current over 17,000 to a more reasonable 9,000 in four phases, with the first to be rolled out through a targeted early retirement offering; and increasing downward delegations of authority and empowerment. USAID's technical assistance will support ECA during the transition to give them the benefit of best practices in change management.

¶12. A new management team has just been selected by the Commissioner based on the assessment approach recommended by USAID consultants. This new team of executives reflects the Commissioner's determination to assemble a dynamic and progressive group of managers that will be empowered and clearly accountable with mandate statements built into their letter of offer.

TRAINING OF CUSTOMS OFFICERS AND MANAGERS

¶13. Between January 2004 and November 2005, USAID funded study tours for Egyptian Customs officers on risk management systems, performance monitoring, and modern customs management practices. As a result, the reformers now have a broader awareness of the importance of risk management systems. USAID also provided computer and English language training to medium level management. Technical training in valuation, risk management, and post-entry is planned to start by the end of 2005. The EU's customs reform project also is allocating sizeable funds for technical and middle management training, in addition to several twinning programs with major European customs organizations.

MIGRATING FROM MULTIPLE CUSTOMS COMPLEXES TO A LIMITED NUMBER OF MODERN CUSTOMS CENTERS

¶14. The ECA began in 2005 to establish Modern Customs Centers (MCCs), which are designed to be single points of interaction for ECA and stakeholders. USAID is assisting the ECA to reduce the number of customs complexes in each of the ports of entry which now carry-out commodity specific customs procedures. Instead, MCCs will amalgamate procedures and provide a one-stop-shop level of service. MCCs are currently operating in Alexandria and Suez, and the objective is to have 10 to 15 MCC's operating by mid- 2007.

¶15. USAID is supporting further improvement of the MCC's by including other border agencies, particularly GOEIC, so that traders can deal with these agencies at a single location. In Alexandria, this has led to more joint examinations between customs and GOEIC, thereby reducing the previous practice of separate examinations of containers. ECA release times at the MCCs are quicker than for other ECA operations. However, an exact comparison is difficult at present due to differences in how average release times are measured in MCCs and elsewhere. FYI: Release times at the Alexandria MCC are measured by the elapsed time between an importer's customs declaration being accepted and the issuance of a tariff invoice. At MCCs, any Customs inspection of an import shipment occurs after issuance of the tariff invoice. Using this definition, customs release times at the Alexandria MCC average less than one day. The most rigorous study to date of customs release times in Egyptian ports was carried out by a USAID contractor in 2004 and determined an average release time in January 2004 for all ports of approximately 8.3 days from registration with Customs thru any Customs inspection to the final issuance of the tariff invoice. The same study determined that overall port clearance times (including time in port prior to customs registration, time in Customs, and time with other port inspection agencies such as GOEIC, Ministry of Health, etc.) was approximately 22.3 days from unloading to leaving the port. USAID is currently working with ECA and others to come up with more standardized and reliable measures of

clearance times through Customs and ports overall. END FYI

ACCOUNT MANAGEMENT SYSTEM (AMS) FOR LARGE IMPORTERS

16. ECA recently inaugurated an Account Management System that will enhance services to Egypt's largest importers. As the name implies, the AMS establishes company-level accounts with dedicated AMS account managers. Importers that qualify for the AMS by virtue of their size and track record of prior compliance with import requirements benefit from more personalized service and streamlines procedures and inspections. Post-clearance audits will be used to ensure continued compliance with import requirements.

17. The AMS began operating in November 2005 with 30 company accounts. The initial phase will concentrate on non-food imports to avoid problems with inspections by Ministries of Health and Agriculture until an agreement is reached with these two entities. The ultimate goal is for the AMS to serve the 500 top importers that account for 80% of Egyptian imports.

REVISED CUSTOMS LAW

18. In June 2005, ten articles of the Customs Law were revised to address pressing topics such as penalties and the code of conduct for customs officials. More revisions of the Customs Law are expected to be drafted and placed before Parliament in the first quarter of 2006.

RISK MANAGEMENT FOR IMPROVED EFFICIENCY, TRADE COMPLIANCE AND RESOURCE ALLOCATION

19. Trade inspections at the Egyptian border have long been recognized as being costly, time consuming, and duplicative. Currently, the level of green channel releases, which are characterized by minimal inspections, averages only about 10% for customs, GOEIC and other control agencies. Tighter targeting of inspections has the potential to greatly streamline import procedures for compliant importers and let border agencies focus their enforcement efforts where they are most needed. Implementing such risk management techniques has now become a top priority for the Minister of Finance and the ECA Commissioner. In September, with USAID support, the heads of ECA and GOEIC signed a declaration setting a target of 70% release without examination for non-agricultural goods entering the Port of Alexandria. Achieving this target will require that Egyptian border agencies both enhance and coordinate their risk management systems.

PERFORMANCE MONITORING

20. USAID consultants are enabling ECA to collect and analyze performance measures that are essential for making informed decisions on staffing, training, compliance and stakeholder outreach. Such performance measures include data on import volumes and values, release times, appeals, complaints, valuation method and inspection levels. A manual process is currently being put in place to capture these core customs performance measures, and USAID will assist in automating the manual process.

GOOD DONOR COORDINATION FOR CUSTOMS REFORM

21. USAID is the largest donor working on customs reform, and has the lead in helping the GOE develop strategic management capacity and streamlined procedures. At the same time, USAID is working to ensure that its efforts are coordinated with those of other donors such as the IMF, the EU, and Euro-Customs. The EU is supporting customs reform with a cash transfer program and with a six-million euro project that focuses on training and IT related to risk management. The IMF provides independent reviews to the GOE and donors on the process and content of technical assistance. Euro-Customs will provide training in different areas as well as support the establishment of a National Customs Training Institute.

REFORMING THE TRADE REGIME

22. Along with the customs reforms described above, the GOE has embarked upon a concerted effort to streamline a range of laws and regulations that affect firms engaged in international trade. Key reforms are described below.

23. As was widely reported, significant tariff reforms took place in September, 2004 when the new Cabinet revised the Egyptian tariff code, reducing the number of tariff bands from 27 to six and lowering the weighted average tariff from 14.6% to 9%. In addition, tariff surcharges ranging from one to three percent were eliminated. Of particular note, the tariff reform eliminated the significant specific tariffs on garments and replaced them with ad valorem rates that are within Egypt's bound rates from the Uruguay Round.

124. Steps were also taken during 2004 to review Egypt's conformity with the WTO Sanitary and Phyto-Sanitary (SPS) Agreement and to begin to bring Egypt's process for developing new SPS regulations into conformity with its international obligations. A review mechanism was put in place in 2005 to generate notifications to the WTO of key SPS activity and making the process of adopting new regulations more transparent. This mechanism is now functioning as demonstrated by the recent notification to the WTO of an emergency measure related to the importation of live birds.

125. More broadly, the Egyptian Organization for Standards (EOS) clarified the way in which new mandatory domestic standards will be adopted and implemented, adding transparency to the system while promoting greater harmony with international standards. USAID technical assistance is working with EOS to address remaining issues, particularly as they relate to shelf life standards for food items.

126. With USAID's help, a GOEIC laboratory received international accreditation by the American Association for Lab Accreditation in 2004 to address quality assurance and control issues for 12 test methods relating to grain, food, and ceramic imports. As a result, these labs are better able to provide internationally recognized certificates of conformity for exported and imported goods. More importantly, the training and procedures that were needed to obtain accreditation have resulted in better and more accurate testing by the laboratory. GOEIC has also modernized its laboratories in the Dekheila Port to improve testing, reduce disputes, and facilitate trade. USAID has also supported the establishment of a GOEIC training center and a trade service center.

127. The GOE continues to invest its own resources in more modern and efficient port infrastructure, and is also encouraging private investment. Alexandria Port, which handles around 60% of Egypt's imports, is currently undergoing major renovations and developments under the leadership of the new Port Chairman who was the previous Port Chairman for Damietta. Major infrastructure developments were made in Damietta Port, which is now fully automated, as is the Ain El-Sokhna private port. A new private port was inaugurated last October in East Port Said, catering mainly to container traffic, with an important focus on international transit shipments. Finally, a new modern port will be built between the Alexandria and Dekheila ports.

NEW IMPORT AND EXPORT REGULATIONS

128. The Ministry of Foreign Trade and Industry, again with USAID assistance, has issued a new set of regulations for imports and exports that has made the regulatory regime more transparent while liberalizing trade in a number of areas. The changes include:

- Establishing provisions to enforce intellectual property rights at the border;
- Granting service industries the same preferences in procedures as apply to manufacturing industries;
- Eliminating local inspection if: (a) goods are already tested in internationally accredited labs in other countries; (b) goods carry international quality marks; and (c) trademarked goods are produced by manufacturers with verifiable quality control systems;
- Capping inspection fees at LE 10,000 per consignment, thus limiting the impact of high inspection fees on a per item basis for cases like shoes;
- Clarifying the process for registering as an exporter.

PURSUING TRADE AGREEMENTS

129. Throughout the past two years, Egypt has actively pursued multilateral, regional, and bilateral trade agreements to facilitate trade. In early 2004, Egypt entered into the Aghadir Agreement with Morocco, Tunisia, Jordan, and Egypt to establish the basis for a free trade area in support of the EU Neighborhood Policy. At the end of 2004, Egypt and Israel, with support from the United States, entered into an agreement to implement Qualifying Industrial Zones in Egypt. Companies located in those zones are able to export duty-free to the United States if they meet minimum Egyptian and Israeli content requirements. In 2005, Egypt also signed an FTA with Turkey.

130. On a regional basis, Egypt is actively participating in the Euro-Mediterranean Process and the European Neighborhood Policy, both of which extend policy engagement well beyond trade and investment.

131. The Government of Egypt is also actively involved in discussions with the United States pursuant to the Trade and Investment Framework Agreement (TIFA). Through these

discussions, the two governments are seeking to resolve a number of technical issues relating to trade that will facilitate the initiation of formal negotiations for a Free Trade Agreement.

132. The Ministry of Foreign Trade and Industry recently embarked on a concerted effort to increase public awareness and understanding of the implications and benefits of free trade for Egypt. This has involved a series of weekly press briefings for the media -- often conducted by the Minister himself -- concerning WTO issues to be addressed at the upcoming Hong Kong Ministerial Meeting and their potential implications for Egypt. In addition, a conference organized jointly by the Ministry, USAID, and the EU was held for the benefit of the Egyptian private sector. International experts and GOE officials discussed the Doha development agenda and Egyptian negotiating positions for key issues to be discussed in Hong Kong.

DONOR COORDINATION

133. The Ministry of Foreign Trade and Industry has received significant assistance from a range of donors on issues related to trade reform and trade facilitation. The USAID-sponsored Assistance for Trade Reform (ATR) project provides trade capacity building assistance to the Ministry through a mix of traditional technical assistance, mentoring and on-the-job training, formal training, and institutional development support. In addition, the Ministry also receives assistance from the EU, UNIDO, and the Canadian, German, British, and Japanese governments.

134. As with customs reform, USAID and its contractors have taken the lead in ensuring coordination among the support activities in the Ministry. The leadership of the various projects meet monthly to discuss their activities and to address any overlaps that may be developing. Formal meetings are held every other month with the Minister and his key staff and the donors to ensure that the donor efforts are directed in accordance with the Minister's desires.

FUTURE USAID ASSISTANCE

135. In October 2005, USAID put in place its main technical assistance vehicle for the coming four years, Technical Assistance in Policy Reform II project (TAPR II). This program includes funds to continue to support customs, trade policy and trade facilitation reforms into the future. TAPR II will provide assistance to the ECA in a number of key areas: a) further refining the customs procedures and rolling them out in all ports, b) implementing the new organizational structure and helping the ECA identify staff requirements, c) and adopting international standards for IT (software and hardware) solutions to improve services. USAID is also planning to assist Egypt in its planned accession to the World Customs Organization's Kyoto Convention in early 2006.

136. Outside the Customs arena, TAPR II will provide assistance in the areas of WTO compliance, laboratory accreditation, standards, trade policy, port services, and trade facilitation.

CONCLUSIONS

137. Customs and trade reforms in the last year and half reflect serious efforts by the GOE to facilitate trade and improve the performance of its control agencies. More coordination between the different border agencies, especially ECA and GOEIC, is becoming a high priority with a focus on common goals and consistent procedures, e.g., inspections and risk management.

138. To achieve greater integration with the international economy, the GOE is engaging in additional bilateral and multilateral trade agreements and working on achieving full compliance with WTO regulations.

139. Expected future trade reforms by the GOE include: 1) full automation of customs procedures, 2) fuller application of risk management principles by ECA and GOEIC to achieve the agreed upon goal of 70% of the goods passing through the green channel, 3) continued ramping up of the AMS for large importers, 4) implementation of the new ECA organization, 5) dissemination of the new simplified customs procedures, 6) introduction of additional improvements to the Import and Export Regulations, 7) pursuit of the FTA with the US, and 8) improved regulations related to inspection and standards.

140. With the current mix of reform oriented policy makers in both the customs and trade areas, and the solid reform foundation established over the past eighteen months, the prospect for continued improvements in the Egyptian trade

regime looks bright. The major challenges confronting policy makers are the successful reorganization of ECA and the achievement of enhanced coordination and consistency of goals between the different trade agencies operating on Egypt's border. RICCIARDONE